

REFUNDING/NEW MONEY ISSUE - BOOK-ENTRY-ONLY

In the opinion of Bond Counsel, under existing law and assuming continued compliance by the Commonwealth with the Internal Revenue Code of 1986, as amended, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for the purpose of computing the federal alternative minimum tax imposed on individuals and corporations, although interest on the Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed upon certain corporations. In the opinion of Bond Counsel, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. For federal and Massachusetts tax purposes, interest includes original issue discount. See "TAX EXEMPTION" herein.

\$625,840,000

THE COMMONWEALTH OF MASSACHUSETTS

\$375,840,000
General Obligation Refunding Bonds
1997 Series A

\$250,000,000
General Obligation Bonds
Consolidated Loan of 1997, Series C

Dated: August 1, 1997

Due: August 1, as shown on the inside cover hereof

The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from August 1, 1997 and interest will be payable on February 1, 1998 and semiannually thereafter on August 1 and February 1, calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity, as more fully described herein.

The Bonds will constitute general obligations of The Commonwealth of Massachusetts (the "Commonwealth"), and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and on expenditures for debt service and regarding dedicated state income tax revenues, see "SECURITY FOR THE BONDS."

The Bonds are offered when, as and if issued and received by the Underwriters, and subject to the unqualified approving opinion as to legality of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Hinckley, Allen & Snyder, Boston, Massachusetts. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about August 12, 1997.

Goldman, Sachs & Co.

Merrill Lynch & Co.

PaineWebber Incorporated

BankBoston, N.A.

Fleet Securities, Inc.

State Street Bank and Trust Company

Advest, Inc.

Artemis Capital Group, Inc.

A.G. Edwards & Sons, Inc.

Bear, Stearns & Co. Inc.

Corby North Bridge Securities

Cowen & Company

First Albany Corporation

Hambrecht & Quist LLC

J.P. Morgan Securities Inc.

Lehman Brothers

Prudential Securities Incorporated

Pryor, McClendon, Counts & Co., Inc.

Roosevelt & Cross, Inc.

Smith Barney Inc.

Tucker Anthony Incorporated

William E. Simon & Sons Municipal Securities Inc.

WR Lazard, Laidlaw & Luther Incorporated

July 24, 1997

THE COMMONWEALTH OF MASSACHUSETTS

\$375,840,000
General Obligation Refunding Bonds
1997 Series A

Dated: August 1, 1997

Due: August 1, as shown below

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
1999	\$ 9,485,000	4.50%	4.05%
2000	45,000,000*	5.00	4.10
2000	58,390,000	5.00	4.15
2001	10,000,000*	5.00	4.20
2001	28,670,000	5.00	4.25
2002	2,205,000	5.00	4.35
2003	2,315,000	5.00	4.40
2004	27,885,000**	5.00	4.50
2005	2,045,000**	5.00	4.55
2006	2,150,000**	5.00	4.60
2007	19,370,000**	5.00	4.65
2008	33,035,000**	5.75	4.70
2009	65,390,000***	5.75	4.75
2010	59,300,000***	5.75	4.85
2011	10,600,000***	5.75	4.90

\$250,000,000
General Obligation Bonds
Consolidated Loan of 1997, Series C

Dated: August 1, 1997

Due: August 1, as shown below

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2010	\$14,425,000***	5.75%	4.85%
2011	28,730,000**	5.75	4.90
2012	30,310,000***	5.00	5.05
2013	31,865,000***	5.00	5.10
2014	33,500,000***	5.00	5.15
2015	35,220,000***	5.00	5.20

\$75,950,000 5.00% Term Bond due August 1, 2017 to yield 5.30%

(accrued interest, if any, to be added)

* Insured by Financial Security Assurance Inc. See "BOND INSURANCE."

** Insured by Financial Guaranty Insurance Company. See "BOND INSURANCE."

*** Insured by Ambac Assurance Corporation. See "BOND INSURANCE."

FOR NEW HAMPSHIRE RESIDENTS: THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

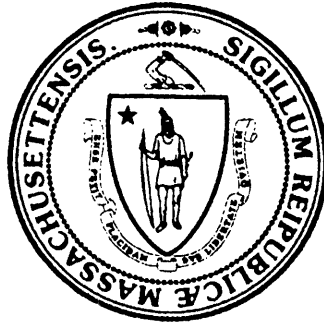
No dealer, broker, salesperson or other person has been authorized by The Commonwealth of Massachusetts or the Underwriters of the Bonds to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy nor shall there be any sale of the Bonds offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein or included by reference herein has been furnished by the Commonwealth and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters of the Bonds or, as to information from other sources, the Commonwealth. The information and expressions of opinion herein or included by reference herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Commonwealth, or its agencies, authorities or political subdivisions, since the date hereof, except as expressly set forth herein.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL ON THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

William F. Weld **Governor**
Argeo Paul Cellucci **Lieutenant Governor**
William F. Galvin **Secretary of the Commonwealth**
L. Scott Harshbarger **Attorney General**
Joseph D. Malone **Treasurer and Receiver-General**
A. Joseph DeNucci **Auditor**

LEGISLATIVE OFFICERS

Thomas F. Birmingham **President of the Senate**
Thomas M. Finneran **Speaker of the House**

OFFICIAL STATEMENT

\$625,840,000

THE COMMONWEALTH OF MASSACHUSETTS

\$375,840,000
General Obligation Refunding Bonds
1997 Series A

\$250,000,000
General Obligation Bonds
Consolidated Loan of 1997, Series C

INTRODUCTION

This Official Statement (including the cover pages and Appendices A through E attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of \$375,840,000 aggregate principal amount of its General Obligation Refunding Bonds, 1997 Series A (the "Series A Bonds") and \$250,000,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 1997, Series C (the "Series C Bonds" and, collectively with the Series A Bonds, the "Bonds"). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service and regarding dedicated state income tax revenues, see "SECURITY FOR THE BONDS" and the Commonwealth Information Statement (described below) under the headings "COMMONWEALTH REVENUES—Limitations on Tax Revenues," "COMMONWEALTH PROGRAMS AND SERVICES—Debt Service" and "COMMONWEALTH BOND AND NOTE LIABILITIES."

The Series A Bonds are being issued to advance refund certain bonds of the Commonwealth as set forth in "Appendix B—Table of Refunded Bonds." See "THE BONDS—Plan of Finance." The Series C Bonds are being issued to finance certain authorized capital projects of the Commonwealth. See "THE BONDS—Application of Proceeds."

Purpose and Content of Official Statement

This Official Statement describes the terms and use of proceeds of, and security for, the Bonds. This introduction is subject in all respects to the additional information contained in this Official Statement, including Appendices A through E. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

Specific reference is made to the Commonwealth's Information Statement dated February 13, 1997 (the "February Information Statement"), as it appears in the Official Statement dated February 20, 1997 of the Massachusetts Bay Transportation Authority with respect to its 1997 Series A Notes (the "MBTA Official Statement"). A copy of the MBTA Official Statement has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and with the Municipal Securities Rulemaking Board. The information contained in the February Information Statement has been supplemented by the Commonwealth Information Statement Supplement dated July 24, 1997 (the "Supplement"), which is attached hereto as Appendix A. The February Information Statement, as supplemented by the Supplement, contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth.

Attached hereto as Appendix B is a listing of the bonds to be refunded with the proceeds of the Series A Bonds. Appendix C attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix D attached hereto contains the proposed form of the Commonwealth's continuing disclosure undertaking to be included in the form of the Bonds to facilitate compliance by Underwriters with the requirements

of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission. Appendix E attached hereto contains specimens of the bond insurance policies to be issued with respect to certain maturities of the Bonds.

THE BONDS

General

The Bonds will be dated August 1, 1997 and will bear interest from such date payable semiannually on February 1 and August 1 of each year, commencing February 1, 1998 (each an "Interest Payment Date") until the principal amount is paid. The Bonds will mature on August 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Commonwealth will act as its own paying agent with respect to the Bonds. The Commonwealth reserves the right to appoint from time to time a paying agent or agents or bond registrar for the Bonds.

Book-Entry-Only System. The Bonds will be issued by means of a book-entry-only system, with one bond certificate for each maturity of each series immobilized at The Depository Trust Company, New York, New York ("DTC"). The certificates will not be available for distribution to the public and will evidence ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof. Transfers of ownership will be effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Interest and principal due on the Bonds will be paid to DTC or its nominee as registered owner of the Bonds. The record date for payments on account of the Bonds will be the business day next preceding an Interest Payment Date. As long as the book-entry-only system remains in effect, DTC or its nominee will be recognized as the owner of the Bonds for all purposes, including notices and voting. The Commonwealth will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. See "BOOK-ENTRY-ONLY SYSTEM."

Redemption

The Series A Bonds will not be subject to redemption prior to their stated maturity dates. The Series C Bonds maturing on August 1, 2010 and August 1, 2011 will not be subject to redemption prior to their stated maturity dates.

Optional Redemption. The Series C Bonds maturing on and after August 1, 2012 will be subject to redemption prior to their stated maturity dates on or after August 1, 2007 at the option of the Commonwealth from any moneys legally available therefor, in whole or in part at any time, by lot, at the redemption prices (expressed as percentages of the principal amount thereof) plus accrued interest to the redemption date, as follows:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
August 1, 2007 through July 31, 2008, inclusive	101%
August 1, 2008 through July 31, 2009, inclusive	100½
August 1, 2009 and thereafter	100

Mandatory Sinking Fund Redemption. The Series C Bonds maturing on August 1, 2017 (the "Term Bond") are subject to mandatory sinking fund redemption on August 1 in each of the years and each of the principal amounts set forth below (the particular Term Bond to be redeemed to be selected by lot), at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the redemption date.

<u>Year</u>	<u>Amount</u>
2016	\$37,025,000
2017	38,925,000*

*Stated Maturity.

The Commonwealth shall be entitled to reduce its mandatory sinking fund redemption obligation in any year with respect to the Term Bond by the principal amount of any such Term Bond previously purchased or optionally redeemed by the Commonwealth.

Notice of Redemption. The Commonwealth shall give notice of redemption to the owners of the Bonds not less than 30 days prior to the date fixed for redemption. So long as the book-entry-only system remains in effect for the Bonds, notices of redemption will be mailed by the Commonwealth only to DTC or its nominee. Any failure on the part of DTC, any DTC participant or any nominee of a beneficial owner of any Bond (having received notice from a DTC participant or otherwise) to notify the beneficial owner so affected, shall not affect the validity of the redemption.

On the specified redemption date, all Bonds called for redemption shall cease to bear interest, provided the Commonwealth has moneys on hand to pay such redemption in full.

Selection for Redemption. In the event that less than all of any maturity of the Bonds is to be redeemed, and so long as the book-entry-only system remains in effect for such Bonds, the particular Bonds or portion of any such Bonds of a particular maturity to be redeemed will be selected by DTC by lot. If the book-entry-only system no longer remains in effect for the Bonds, selection for redemption of less than all of any one maturity of the Bonds will be made by the Commonwealth by lot in such manner as in its discretion it shall deem appropriate and fair. For purposes of selection by lot within a maturity, each \$5,000 of principal amount of a Bond will be considered a separate Bond.

Plan of Finance

The Series A Bonds, together with the Commonwealth's \$271,280,000 General Obligation Refunding Bonds, 1997 Series B (the "Variable Rate Bonds"), expected to be issued at or about the same time as the Bonds, are being issued pursuant to the provisions of Section 53A of Chapter 29 of the Massachusetts General Laws for the purpose of advance refunding the bonds set forth in Appendix B (the "Refunded Bonds").

The Commonwealth, upon delivery of the Series A Bonds and the Variable Rate Bonds, will enter into a refunding escrow agreement (the "Escrow Agreement") with State Street Bank and Trust Company, Boston, Massachusetts, as escrow agent (the "Escrow Agent"). The Escrow Agreement will provide for the deposit of the net proceeds of the Series A Bonds and the Variable Rate Bonds with the Escrow Agent in a separate account to be applied immediately upon receipt to purchase non-callable direct obligations of the United States of America—State and Local Government Series (the "Government Obligations") and to funding, if needed, a cash deposit in such account. The Escrow Agreement will require that maturing principal of and interest on the Government Obligations, plus any initial cash deposit, be held in trust in such account and paid to the Commonwealth solely for the payment of the principal of and redemption premium, if any, and interest on the Refunded Bonds. According to the report described in "VERIFICATION OF MATHEMATICAL COMPUTATIONS," the Government Obligations will mature at such times and earn interest in such amounts that, together with any initial cash deposit, will produce sufficient monies to make such payments on the Refunded Bonds to and including their respective maturity or redemption dates, each as set forth in Appendix B.

In connection with the issuance of the Variable Rate Bonds, the Commonwealth will enter into separate master interest exchange agreements with Goldman Sachs Mitsui Marine Derivative Products, L.P. and Ambac Financial Services, Limited Partnership (each, a "Counterparty"), with notional amounts of \$162,768,000 and \$108,512,000, respectively, in order to achieve a synthetic fixed rate in respect of the Variable Rate Bonds while they are in the Weekly Mode or Daily Mode. The Commonwealth has entered into interest rate swap transactions with each Counterparty under the respective master interest exchange agreements providing, in essence, that such Counterparty, as the floating rate payor, is obligated to pay to the Commonwealth the amount of the actual variable interest rates on the Variable Rate Bonds, and the Commonwealth, as the fixed rate payor, is obligated to pay to such Counterparty a specified fixed rate. Under certain circumstances, the Counterparties' payment obligation could become tied to a general floating rate index rather than to the actual interest rates on the Variable Rate Bonds.

The Series C Bonds are being issued pursuant to the provisions of Section 49 of Chapter 29 of the Massachusetts General Laws and bond authorizations enacted by the Legislature.

Application of Proceeds

The net proceeds of the Series A Bonds will be applied as described in "Plan of Finance." The net proceeds of the sale of the Series C Bonds will be applied by the State Treasurer to the various purposes for which the issuance of bonds has been authorized by the Legislature. Any accrued interest payable upon original delivery of the Bonds will be credited ratably to the funds from which debt service on the Bonds is paid and will be used to pay interest on the Bonds.

The purposes for which the Series C Bonds will be issued have been authorized by the Legislature under various bond authorizations and are included within the current five-year capital spending plan established by the Executive Office for Administration and Finance. The plan, which is an administrative guideline and is subject to amendment at any time, sets forth capital spending allocations over the next five fiscal years and establishes annual capital spending limits. The proceeds of the Series C Bonds are to be applied in fiscal year 1998 to certain projects included within the categories of capital expenditures contained in the Capital Spending Plan. See the February Information Statement under the headings "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*" and "COMMONWEALTH BOND AND NOTE LIABILITIES—Authorized But Unissued Debt" and the Supplement under the heading "Five-Year Capital Spending Plan and Plan of Finance."

SECURITY FOR THE BONDS

The Bonds will be general obligations of the Commonwealth to which its full faith and credit will be pledged for the payment of principal and interest when due. However, it should be noted that Chapter 62F of the Massachusetts General Laws imposes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should be noted further that Section 60B of Chapter 29 of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth. These statutes are both subject to amendment or repeal by the Legislature. Currently, both actual tax revenue growth and annual general obligation debt service are below the statutory limits. See the February Information Statement under the headings "COMMONWEALTH REVENUES—Limitations on Tax Revenues" and "COMMONWEALTH PROGRAMS AND SERVICES—Debt Service." In addition, the Commonwealth has pledged up to 15% of its income tax receipts to secure \$129.9 million of the Commonwealth's outstanding Fiscal Recovery Bonds, the final debt service payment on which is due on December 1, 1997, at which time all such bonds will have been retired. See the February Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES—General Obligation Debt; *Dedicated Income Tax Debt*."

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including the Bonds, and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires a legislative appropriation. Enforcement of a claim for payment of principal of or interest on the Bonds may also be subject to the provisions of federal or state statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as the same may be constitutionally applied. The United States Bankruptcy Code is not applicable to the Commonwealth. Under Massachusetts law, the Bonds have all of the qualities and incidents of negotiable instruments under the Uniform Commercial Code. The Bonds are not subject to acceleration.

BOND INSURANCE

Financial Security Assurance Inc. ("FSA"), Financial Guaranty Insurance Company ("FGIC") and Ambac Assurance Corporation ("Ambac") (collectively, the "Insurers") will issue their respective insurance policies to secure the Bonds maturing on the specific dates for each Insurer as indicated on the inside cover of this Official Statement (the "FSA-Insured Bonds," the "FGIC-Insured Bonds" and the "Ambac-Insured Bonds," respectively, and, collectively, the "Insured Bonds"). The following information has been furnished by the Insurers for use in this Official Statement. Reference is made to Appendix E for specimens of the Insurers' policies.

FSA

Concurrently with the issuance of the FSA-Insured Bonds, FSA will issue its Municipal Bond Insurance Policy (the "FSA Policy") for a portion of the Bonds maturing on August 1, 2000 and August 1, 2001, as indicated on the inside cover page. The FSA Policy guarantees the scheduled payment of principal of and interest on the FSA-Insured Bonds when due as set forth in the form of the FSA Policy included as Appendix E to this Official Statement.

THE FSA POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

FSA is a New York-domiciled insurance company and a wholly-owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is a New York Stock Exchange-listed company, whose major shareholders include Fund American Enterprises Holdings, Inc., The Tokio Marine and Fire Insurance Co., Ltd. and U S WEST Capital Corporation. The shareholders of Holdings are not liable for the obligations of FSA.

At March 31, 1997, FSA's total policyholders' surplus and contingency reserves were approximately \$691,321,000 and its total unearned premium reserve was approximately \$417,390,000 in accordance with statutory accounting principles. At March 31, 1997, FSA's total shareholders' equity was approximately \$824,939,000 and its total net unearned premium reserve was approximately \$361,589,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds.

Copies of such materials incorporated by reference will be provided upon request to FSA: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone 212/826-0100).

The FSA Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. FSA makes no representation regarding the Bonds or the advisability of investing in the Bonds. FSA makes no representation regarding this Official Statement, nor has it participated in the preparation thereof, except that FSA has provided to the Commonwealth the information presented under this caption for inclusion in this Official Statement.

FGIC

Concurrently with the issuance of the FGIC-Insured Bonds, FGIC will issue its Municipal Bond New Issue Insurance Policy for the FGIC-Insured Bonds (the "FGIC Insurance Policy"). The FGIC Insurance Policy unconditionally guarantees the payment of that portion of the principal of and interest on the FGIC-Insured Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Commonwealth. FGIC will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which FGIC shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of FGIC-Insured Bonds or the Paying Agent of the

nonpayment of such amount by the Commonwealth. The Fiscal Agent will disburse such amount due on any FGIC-Insured Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in FGIC. The term "nonpayment" in respect of a FGIC-Insured Bond includes any payment of principal or interest made to an owner of a FGIC-Insured Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The FGIC Insurance Policy is non-cancelable and the premium will be fully paid at the time of delivery of the FGIC-Insured Bonds. The FGIC Insurance Policy covers failure to pay principal of the FGIC-Insured Bonds on their respective stated maturity dates, or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the FGIC-Insured Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

This Official Statement contains a section regarding the ratings assigned to the Bonds and references should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds. Reference should be made to the description of the Commonwealth and the Bonds for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement and the circumstances, if any, under which the Commonwealth is required to provide additional or substitute credit enhancement, and related matters.

The FGIC Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

FGIC is a wholly-owned subsidiary of FGIC Corporation, a Delaware holding company. FGIC Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither FGIC Corporation nor GE Capital is obligated to pay the debts of or the claims against FGIC. FGIC is a monoline financial guaranty insurer domiciled in the State of New York and is subject to regulation by the State of New York Insurance Department. As of March 31, 1997, the total capital and surplus of FGIC was approximately \$1,123,724,061. FGIC prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to FGIC at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number 212-312-3000) or to the New York State Insurance Department at 160 West Broadway, 18th Floor, New York, NY 10013, Attention: Financial Condition Property/Casualty Bureau (telephone number 212-602-0389).

Ambac

Ambac has made a commitment to issue a municipal bond insurance policy (the "Ambac Policy") relating to the Ambac-Insured Bonds effective as of the date of issuance of the Ambac-Insured Bonds. Under the terms of the Policy, Ambac will pay to the United States Trust Company of New York, in New York, New York, or any successor thereto (the "Insurance Trustee"), that portion of the principal of and interest on the Ambac-Insured Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment (as such term is defined in the Ambac Policy) by the Commonwealth. Ambac will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac shall have received notice of Nonpayment from a Bondholder. The insurance will extend for the term of the Ambac-Insured Bonds and, once issued, cannot be canceled by Ambac.

The Ambac Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Ambac-Insured Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Ambac-Insured Bonds, Ambac will remain obligated to pay principal of and interest on outstanding Ambac-Insured Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Ambac-Insured Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an

acceleration.

In the event the Commonwealth has notice that any payment of principal or interest on an Ambac-Insured Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Commonwealth has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

The Ambac Policy does not insure any risk other than Nonpayment, as defined in the Ambac Policy. Specifically, the Ambac Policy does not cover:

1. nonpayment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;
2. nonpayment of any redemption, prepayment or acceleration premium; or
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Ambac Policy, payment of principal requires surrender of Ambac-Insured Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Ambac-Insured Bonds to be registered in the name of Ambac to the extent of the payment under the Ambac Policy. Payment of interest pursuant to the Ambac Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to Ambac.

Upon payment of the insurance benefits, Ambac will become the owner of the Ambac-Insured Bonds, appurtenant coupon, if any, or right to payment of principal or interest on such Ambac-Insured Bonds and will be fully subrogated to the surrendering Bondholders' rights to payment.

Ambac is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$2,642,000,000 (unaudited) and statutory capital of approximately \$1,509,000,000 (unaudited) as of March 31, 1997. Statutory capital consists of Ambac's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc., Moody's Investors Service and Fitch Investors Service, L.P. have each assigned a triple-A claims-paying ability rating to Ambac.

Ambac has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac under policy provisions substantially identical to those contained in its municipal bond insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Ambac-Insured Bonds.

Ambac makes no representation regarding the Ambac-Insured Bonds or the advisability of investing in the Ambac-Insured Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac and presented under this Section entitled "BOND INSURANCE."

The parent company of Ambac, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, DC 20549 and at the Commission's regional offices at 7 World Trade Center, New York, NY 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, IL 60661. Copies of such materials can be obtained

from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, DC 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. at 20 Broad Street, New York, NY 10005. The Company's Common Stock is listed on the New York Stock Exchange.

Copies of Ambac's financial statements prepared in accordance with statutory accounting standards are available from Ambac. The address of Ambac's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, NY 10004 and 212/668-0340.

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 and filed on March 31, 1997;
2. The Company's Current Report on Form 8-K dated March 12, 1997 and filed on March 12, 1997; and
3. The Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997 and filed on May 15, 1997.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above.

LITIGATION

No litigation is pending or, to the knowledge of the Attorney General, threatened against or affecting the Commonwealth seeking to restrain or enjoin the issuance, sale or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds.

There are pending in courts within the Commonwealth various suits in which the Commonwealth is a defendant. In the opinion of the Attorney General, no litigation is pending or, to his knowledge, threatened which is likely to result, either individually or in the aggregate, in final judgments against the Commonwealth that would affect materially its financial condition. For a description of certain litigation affecting the Commonwealth, see the February Information Statement and the Supplement under the heading "LITIGATION."

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will initially be issued exclusively in book-entry form, and one fully registered Bond for each maturity of each series set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (the "DTC Participants") deposit with DTC. DTC also facilitates the settlement among DTC Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of the DTC Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as banks,

securities brokers and dealers, and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants"). The rules applicable to DTC and the DTC Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for the Bonds in the records of DTC. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the DTC Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations of their purchase providing details of the Bonds acquired, as well as periodic statements of their holdings, from the DTC Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds will be accomplished by entries made on the books of DTC Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system is discontinued.

To facilitate subsequent transfers, all Bonds deposited by DTC Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the DTC Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each DTC Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an omnibus proxy to the Commonwealth as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s voting rights to those DTC Participants having the Bonds credited to their accounts on the record date (identified in a listing attached to the omnibus proxy).

THE COMMONWEALTH WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR BY ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT, THE PAYMENT OF OR THE PROVIDING OF NOTICE TO THE DTC PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS OR WITH RESPECT TO ANY OTHER ACTION TAKEN BY DTC AS BOND OWNER.

Beneficial Owners of the Bonds will not receive or have the right to receive physical delivery of such Bonds and will not be or be considered to be the registered owners thereof. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the holders or registered owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds, except as otherwise expressly provided herein.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Commonwealth. Under such circumstances, unless a substitute depository is retained by the Commonwealth, Bonds will be delivered and registered as designated by the Beneficial Owners. The Beneficial Owner, upon registration of Bonds held in the Beneficial Owner's name, will become the Bondowner.

The Commonwealth may determine that continuation of the system of book-entry transfers through DTC (or a successor depository) is not in the best interest of the Beneficial Owners. In such event, Bonds will be delivered and registered as designated by the Beneficial Owners.

The principal of and interest and premium, if any, on the Bonds will be paid to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Upon receipt of moneys, DTC's practice is to credit the accounts of the DTC Participants on the payable date in accordance with their respective holdings shown on the records of DTC unless DTC has reason to believe it will not receive payment on the payable date. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant or Indirect Participant and not DTC or the Commonwealth, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of the principal of and interest and premium, if any, on the Bonds to DTC is the responsibility of the Commonwealth; disbursement of such payments to DTC Participants and Indirect Participants shall be the responsibility of DTC; and disbursement of such payments to Beneficial Owners shall be the responsibility of the DTC Participants and the Indirect Participants.

The Commonwealth cannot give any assurances that DTC Participants or others will distribute payments of principal of and interest on the Bonds paid to DTC or its nominee, as the registered owner, to the Beneficial Owners, or that they will do so on a timely basis or that DTC will serve and act in a manner described in this document.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE COMMONWEALTH BELIEVES TO BE RELIABLE, BUT THE COMMONWEALTH TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

RATINGS

Fitch Investors Service, L.P., Moody's Investors Service, Inc. and Standard & Poor's will assign their municipal bond ratings of "AAA," "Aaa" and "AAA," respectively, to the Insured Bonds with the understanding that upon delivery of such Insured Bonds, insurance policies insuring the payment when due of the principal of and interest on the Insured Bonds will be issued by FSA, FGIC and Ambac.

The Bonds, other than the Insured Bonds, have been assigned ratings by Fitch Investors Service, L.P., Moody's Investors Service, Inc. and Standard & Poor's of "A+," "A1" and "A+," respectively.

Such ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained from the rating agency furnishing the same. There is no assurance that a rating will continue for any given period of time or that a rating will not be revised or withdrawn entirely by any or all of such rating agencies, if, in its or their judgment, circumstances so warrant. Any downward revision or withdrawal of a rating could have an adverse effect on the market prices of the Bonds.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase all of the Bonds from the Commonwealth at a discount from the initial offering prices of the Bonds equal to .49% of the aggregate principal amount of the Bonds. The Underwriters may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the inside cover page hereof. The principal offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Underwriters.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Deloitte & Touche LLP, a firm of independent public accountants will deliver to the Commonwealth, on or before the settlement date of the Bonds, its report indicating that it is has verified, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the Commonwealth and its representatives. Included in the scope, will be a verification of the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on, the Government Obligations to pay, when due, the maturing principal of, interest on and related call premium requirements of the Refunded Bonds being refunded from proceeds of the Series A Bonds and the Variable Rate Bonds; and (b) the mathematical computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" under the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

The verification performed by Deloitte & Touche LLP will be solely based upon data, information and documents provided to Deloitte & Touche LLP by the Commonwealth and its representatives. The Deloitte & Touche LLP report of its verification will state that Deloitte & Touche LLP has no obligation to update the report because of events occurring, or data or information coming to their attention, subsequent to the date of the report.

TAX EXEMPTION

Bond Counsel is of the opinion that, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for the purpose of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"); it should be noted, however, that the interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). Bond Counsel has not opined as to other federal tax consequences, if any, resulting from holding the Bonds.

The Code imposes certain requirements and restrictions on the use, expenditure and investment of proceeds of state and local governmental obligations, including the Bonds, and a requirement for payment to the federal government (called a "rebate") of certain proceeds derived from the investment thereof. Failure to comply with the Code's requirements subsequent to the issuance of the Bonds could cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of their issuance. On or before delivery of the Bonds to the original purchasers, the Commonwealth will provide covenants or certificates evidencing that it will take all lawful action necessary to comply with those provisions of the Code that, except for such compliance, would affect adversely the excludability of interest on the Bonds from gross income for federal income tax purposes. Bond Counsel's opinion with respect to the federal income tax treatment of interest on the Bonds is conditioned upon such compliance.

Prospective purchasers of the Bonds should also be aware that the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, or, in the case of a financial institution, for that portion of the owner's interest expense allocated to interest on the Bonds. Interest on the Bonds earned by insurance companies or allocable to certain dividends received by such companies may increase the taxable income of those companies as calculated under Subchapter L of the Code. In addition, interest on the Bonds earned by certain corporations could be subject to the foreign branch profits tax imposed by Section 884 of the Code, and may be included in passive investment income subject to federal income taxation under Section 1375 of the Code applicable to certain S corporations. The Code also requires recipients of certain social security and railroad retirement benefits to take into account receipts and accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income and receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit under Section 32(i) of the Code. No assurance can be given that future legislation will not have adverse tax consequences for owners of the Bonds.

In the opinion of Bond Counsel, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective purchasers should be aware,

however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

For federal and Massachusetts tax purposes, interest includes original issue discount, which with respect to a Bond is equal to the excess, if any, of the stated redemption price at maturity of such Bond over the initial offering price thereof to the public, excluding underwriters and other intermediaries, at which price a substantial amount of all substantially identical Bonds were sold. Original issue discount accrues over the term of a Bond in accordance with Section 1272 of the Code. Purchasers of Bonds should consult their own tax advisers with respect to the computation of original issue discount on such accruals of interest during the period in which any such Bond is held.

On the date of delivery of the Bonds, the original purchasers will be furnished with an opinion of Bond Counsel substantially in the form attached hereto as "Appendix C -- Form of Opinion of Bond Counsel."

OPINIONS OF COUNSEL

The unqualified approving opinion as to the legality of the Bonds will be rendered by Palmer & Dodge LLP of Boston, Massachusetts, Bond Counsel to the State Treasurer. The proposed form of the opinion of Bond Counsel relating to the Bonds is attached as Appendix C. Certain legal matters will be passed upon for the State Treasurer by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. of Boston, Massachusetts, as Disclosure Counsel to the State Treasurer. Certain legal matters will be passed upon for the Underwriters by their counsel, Hinckley, Allen & Snyder of Boston, Massachusetts.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with paragraph (b)(5) of Rule 15c2-12, the Commonwealth will undertake in the Bonds to provide annual reports and notices of certain events. A description of this undertaking is set forth in Appendix D attached hereto. The Commonwealth has complied in all material respects with its existing undertakings to provide annual reports and notices of material events in accordance with Rule 15c2-12.

For information concerning the availability of certain other financial information from the Commonwealth, see the February Information Statement under the heading "CONTINUING DISCLOSURE."

MISCELLANEOUS

Any provisions of the constitution of the Commonwealth, of all general and special laws and of other documents set forth or referred to in this Official Statement are only summarized, and such summaries do not purport to be complete statements of any of such provisions. Only the actual text of such provisions can be relied upon for completeness and accuracy.

All estimates and assumptions in this Official Statement have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates and assumptions are correct. So far as any statements in this Official Statement involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. The various tables may not add due to rounding of figures.

The information, estimates and assumptions and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale made pursuant to this Official Statement shall, under any circumstances, create any implication that there has been no change in the

affairs of the Commonwealth or its agencies, authorities or political subdivisions since the date of this Official Statement, except as expressly stated.

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Assistant Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900, or Catherine R. Frazer, Director of Debt Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to Walter J. St. Onge, III, Palmer & Dodge LLP, One Beacon Street, Boston, Massachusetts 02108, telephone 617/573-0389.

THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Joseph D. Malone
Joseph D. Malone
Treasurer and Receiver-General

By /s/ Charles D. Baker
Charles D. Baker
Secretary of Administration and Finance

July 24, 1997

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THE
COMMONWEALTH
OF
MASSACHUSETTS



INFORMATION STATEMENT SUPPLEMENT

Dated July 24, 1997

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THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT SUPPLEMENT

July 24, 1997

Specific reference is made to the Information Statement dated February 13, 1997 (the "February Information Statement") of The Commonwealth of Massachusetts (the "Commonwealth"), as it appears in the Official Statement dated February 20, 1997 of the Massachusetts Bay Transportation Authority with respect to its 1997 Series A Notes (the "MBTA Official Statement"). A copy of the MBTA Official Statement has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and with the Municipal Securities Rulemaking Board. Specific reference is further made to Exhibit A (the "Economic Information Exhibit") to the Commonwealth's Information Statement Supplement dated July 18, 1997, which sets forth certain economic, demographic and statistical information concerning the Commonwealth. A copy of the July 18, 1997 supplement containing the Economic Information Exhibit has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. This supplement ("Supplement") to the February Information Statement is dated July 24, 1997 and contains information which updates the information contained in the February Information Statement. This Supplement, the February Information Statement and the Economic Information Exhibit must be read collectively and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through July 24, 1997. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the February Information Statement.

RECENT DEVELOPMENTS

Fiscal 1998

The House of Representatives approved its version of the fiscal 1998 budget on April 17, 1997, and the Senate approved its version on May 21, 1997. The legislative conference committee appointed to reconcile the two versions released its report on June 29, 1997, and the budget was enacted by the Legislature on June 30, 1997 and approved by the Governor on July 10, 1997. (Appropriations covering the first two weeks of the fiscal year were enacted and approved on June 30, 1997.) The budget is based on a consensus tax revenue forecast of \$12.85 billion, as agreed by both houses of the Legislature in March, which, according to preliminary results, is equivalent to the amount of actual tax receipts for fiscal 1997. The Executive Office for Administration and Finance expects to review the fiscal 1998 tax forecast in September after it has completed its analysis of fiscal 1997 results and reviewed collections during the first quarter of fiscal 1998.

The fiscal 1998 budget provides for total appropriations of approximately \$18.4 billion, a 3.8% increase over estimated fiscal 1997 expenditures. The Governor vetoed or reduced appropriations totalling \$3.3 million. The budget incorporates tax cuts valued by the Department of Revenue at \$61 million and provides for an accelerated pension funding schedule. See "State Taxes" and "Retirement Systems and Pension Benefits."

On July 10, 1997, the Governor filed a supplemental appropriation bill for fiscal 1998 which would reduce existing fiscal 1998 appropriations to public higher education institutions in the Commonwealth by \$24 million and create a \$24 million reserve, to be administered by the Board of Higher Education, to offset reductions in student fees during fiscal 1998 at the various campuses. The bill would also prohibit increases in student fees after July 1, 1997 without the approval of the Board of Higher Education. The bill has been referred to the House Ways and Means Committee.

Fiscal 1997

Preliminary results indicate that fiscal 1997 tax collections totalled approximately \$12.861 billion, an increase of approximately \$812 million, or 6.7%, over fiscal 1996 and approximately \$354 million higher than the most recent official estimates released by the Secretary of Administration and Finance on May 20, 1997. Total fiscal 1997 revenues are estimated to have totalled approximately \$17.918 billion. Supplemental fiscal 1997 appropriations to date total approximately \$135.8 million. Projected total fiscal 1997 expenditures are approximately \$17.735 billion, including \$212.8 million in supplemental spending requests filed by the Governor. See the February Information Statement under the heading "1997 FISCAL YEAR." Under these spending and revenue assumptions, approximately \$241.0 million would be transferred to the Commonwealth Stabilization Fund on account of fiscal 1997, bringing its balance to approximately \$804.3 million, and \$160.7 million would be transferred to a newly established capital projects fund. The Legislature has not yet completed action on the final fiscal 1997 supplemental appropriation bills. The Senate and the House of Representatives have approved differing versions of a fiscal 1997 supplemental appropriation bill that would authorize post-fiscal 1997 spending to be charged to fiscal 1997, thereby having the effect of reducing the amount of the fiscal 1997 surplus. See "Operating Fund Structure."

Selected Financial Data - Statutory Basis

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 1992 through 1996, and estimates for fiscal 1997 prepared by the Executive Office for Administration and Finance. The financial information presented includes all budgeted operating funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 1997 budget. See the February Information Statement under the heading "FINANCIAL RESULTS."

Budgeted Operating Funds Operations -- Statutory Basis
(in millions)

	Fiscal <u>1992</u>	Fiscal <u>1993</u>	Fiscal <u>1994</u>	Fiscal <u>1995</u>	Fiscal <u>1996</u>	Estimated Fiscal <u>1997</u>
Beginning Fund Balances						
Reserved or Designated	\$119.8	\$236.2	\$110.4	\$79.3	\$128.1	263.4
Tax Reduction Fund	-	-	-	-	-	231.7 (4)
Stabilization Fund (1)	59.2	230.4	309.5	382.9	425.4	543.3
Undesignated	<u>58.1</u>	<u>82.8</u>	<u>142.6</u>	<u>127.1</u>	<u>172.5</u>	<u>134.0</u>
Total	<u>237.1</u>	<u>549.4</u>	<u>562.5</u>	<u>589.3</u>	<u>726.0</u>	<u>1,172.4</u>
Revenues and Other Sources						
Taxes	9,483.6	9,929.9	10,606.7	11,163.4	12,049.2	12,860.9
Federal Reimbursements (2)	2,393.5	2,674.1	2,901.2	2,969.7	3,039.1	2,854.7
Departmental and Other Revenues	1,187.3	1,327.1	1,187.9	1,273.1	1,208.1	1,254.0
Interfund Transfers from Non-budgeted Funds and Other Sources (3)	<u>663.9</u>	<u>778.5</u>	<u>853.9</u>	<u>981.0</u>	<u>1,031.1</u>	<u>947.8</u>
Budgeted Revenues and Other Sources	<u>13,728.3</u>	<u>14,709.6</u>	<u>15,549.7</u>	<u>16,387.2</u>	<u>17,327.5</u>	<u>17,917.4</u>
Mass Transit Assessments from Municipalities	130.9	137.4	140.4	143.9	147.6	148.1
Interfund Transfers among Budgeted Funds and Other Sources (3)	<u>366.9</u>	<u>358.7</u>	<u>289.1</u>	<u>399.7</u>	<u>896.2</u>	<u>505.9</u>
Total Revenues and Other Sources	<u>14,226.1</u>	<u>15,205.7</u>	<u>15,979.2</u>	<u>16,930.8</u>	<u>18,371.3</u>	<u>18,571.4</u>
Expenditures and Uses						
Programs and Services	11,757.4	12,683.6	13,416.2	14,010.3	14,650.7	15,333.4
Debt Service	898.3	1,139.5	1,149.4	1,230.9	1,183.6	1,283.6
Pensions	751.5	868.2	908.9	968.8	1,004.6	1,074.3
Interfund Transfers to Non-budgeted Funds and Other Uses	<u>8.8</u>	<u>5.1</u>	<u>48.4</u>	<u>40.4</u>	<u>42.2</u>	<u>44.1</u>
Budgeted Expenditures and Other Uses	<u>13,416.0</u>	<u>14,696.4</u>	<u>15,522.9</u>	<u>16,250.5</u>	<u>16,881.1</u>	<u>17,735.4 (5)</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	130.9	137.4	140.4	143.9	147.6	148.1
Interfund Transfers among Budgeted Funds and Other Uses (3)	<u>366.9</u>	<u>358.7</u>	<u>289.1</u>	<u>399.7</u>	<u>896.2</u>	<u>505.9</u>
Total Expenditures and Other Uses	<u>13,913.8</u>	<u>15,192.6</u>	<u>15,952.4</u>	<u>16,794.1</u>	<u>17,924.9</u>	<u>18,389.4</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>312.3</u>	<u>13.1</u>	<u>26.8</u>	<u>136.7</u>	<u>446.4</u>	<u>182.0</u>
Transfer of Excess to Capital Projects Fund	-	-	-	-	-	(160.7) (6)
Net Excess	-	-	-	-	-	<u>21.3</u>
Ending Fund Balances						
Reserved or Designated	236.2	110.4	79.3	128.1	263.4	149.6
Tax Reduction Fund	--	--	--	--	231.7 (4)	87.7
Stabilization Fund (1)	230.4	309.5	382.9	425.4	543.3	804.3
Undesignated	<u>82.8</u>	<u>142.6</u>	<u>127.1</u>	<u>172.5</u>	<u>134.0</u>	<u>151.8</u>
Total	<u>\$549.4</u>	<u>\$562.5</u>	<u>\$589.3</u>	<u>\$726.0</u>	<u>\$1,172.4</u>	<u>\$1,193.5</u>

SOURCE: Fiscal 1992-1996, Office of the Comptroller; fiscal 1997, Executive Office for Administration and Finance.

- (1) Stabilization Fund balances are not expendable without subsequent specific legislative authorization.
- (2) Includes \$198.6 million for fiscal 1992, \$236.3 million for fiscal 1993, \$247.8 million for fiscal 1994, \$231.9 million for fiscal 1995, \$212.5 million for fiscal 1996 and an estimated \$221.0 million for fiscal 1997 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See the February Information Statement under the headings "FINANCIAL RESULTS—Fiscal Years 1992 through 1996" and "1997 FISCAL YEAR."
- (3) Interfund transfers represent accounting transfers which reallocate resources among funds. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$170.0 million, \$76.9 million, \$65.4 million, \$27.9 million and \$177.4 million in fiscal 1992, 1993, 1994, 1995 and 1996, respectively. See the February Information Statement under the headings "COMMONWEALTH REVENUES—Federal and Other Non-Tax Revenues." Of the \$177.4 million transferred to the Stabilization Fund in fiscal 1996, \$81.7 million was subsequently transferred to the Tax Reduction Fund. See the February Information Statement under the heading "FINANCIAL RESULTS—Fiscal Years 1992 through 1996; 1996 Fiscal Year."
- (4) Represents excess amount of \$81.7 million transferred from the Stabilization Fund to the Tax Reduction Fund and a \$150 million legislative appropriation made to the Tax Reduction Fund. See the February Information Statement under the heading "FINANCIAL RESULTS—Fiscal Years 1992 through 1996; 1996 Fiscal Year."
- (5) Reflects supplemental appropriations requested by the Governor but not yet enacted by the Legislature; final expenditure calculations must await enactment of the final supplemental appropriations for fiscal 1997.
- (6) Reflects enactment of legislation approved May 12, 1997. See "Operating Fund Structure." When the Comptroller closes the books for fiscal 1997, such amount will be treated as an interfund transfer. See footnote (3).

Cash Flow

On June 11, 1997, the State Treasurer and the Secretary of Administration and Finance released revised cash flow projections for fiscal 1997 and fiscal 1998. See the February Information Statement under the heading "FINANCIAL RESULTS—Cash Flow." The fiscal 1997 forecast is based on fiscal 1997 appropriations to the date of the report, and the fiscal 1998 forecast is based on the budget recommendations filed by the Governor on January 22, 1997. Both projections contain proposed revenue and spending estimates by the Secretary of Administration and Finance and incorporate actual results through April, 1997 and monthly projections through June, 1998.

Fiscal 1997 is projected to end with a cash balance of \$162.6 million. The report states that this projection is based on conservative assumptions and that, given recent economic performance, actual results may be better. The projected year-end balance does not include any fiscal 1997 activity that may occur after June 30, 1997, nor does it include \$95.4 million to be transferred to the Stabilization Fund on account of fiscal 1996. The report notes that Commonwealth transit notes are not being issued in June, 1997, as previously projected and that the \$240 million of transit notes due in June, 1997 are being paid with cash. The projection assumes that \$240 million of Commonwealth transit notes will be issued in August, 1997. The projection also assumes that the Commonwealth will issue \$400 million of bond anticipation notes during fiscal 1998 in anticipation of payments to be received from the Massachusetts Turnpike Authority and the Massachusetts Port Authority in connection with the Central Artery/Ted Williams Tunnel project, as contemplated by the Metropolitan Highway System legislation approved by the Governor on March 20, 1997 and the transportation bond legislation approved by the Governor on May 16, 1997. In addition, the projection contemplates the issuance of \$175 million of grant anticipation notes during fiscal 1998, in anticipation of future federal funding for the project. See "Capital Spending." The fiscal 1998 ending cash balance is estimated to be \$349.0 million. The cash flow statement for fiscal 1998 projects no need to borrow for operating needs under the Commonwealth's commercial paper program and notes that no short-term borrowings have been required during fiscal 1997.

The ending balances projected in the cash flow forecasts for fiscal 1997 and fiscal 1998 are likely to differ from the estimated ending balances for the Commonwealth's operating budget for those years because of timing differences and the effect of non-budget items.

State Taxes

In his fiscal 1998 budget recommendations, the Governor proposed personal and business tax reductions with an estimated aggregate fiscal 1998 cost of \$82 million. See the February Information Statement under the heading "1998 FISCAL YEAR." The Senate version of the fiscal 1998 budget included four different tax cuts with an aggregate fiscal 1998 cost estimated by the Senate Ways and Means Committee at approximately \$82 million, including a reduction in the tax rate on "unearned" income for low- and moderate-income seniors, establishment of an earned income tax credit, an increase in the child dependent deduction and a 50% deduction for higher education student loan interest payments. The fiscal 1998 budget approved by the Governor on July 10, 1997 contains three tax cuts with an aggregate fiscal 1998 cost estimated by the Department of Revenue to be \$60.9 million — an increase in the child dependent deduction from \$600 to \$1,200 for children up to age 12 (\$15.3 million), a tax credit of up to \$6,000 over four years for septic tank improvements (\$17 million) and an earned income tax credit amounting to 10% of the federal credit (\$28.6 million). The Taxation Committee is also considering a variety of additional tax reduction measures, including those proposed by the Governor in his budget recommendations and those approved by the Senate in its budget which were not included in the final budget.

Non-Tax Revenues

As enacted by the Legislature, the transportation bond legislation described below under "Capital Spending" contained a provision that would restore registration, license and permit fees credited to the Highway Fund to the rates in effect on January 1, 1996 if federal aid to the Central Artery/Ted Williams Tunnel project falls below \$550 million in any fiscal year during the next six years. See the February Information Statement under the heading "COMMONWEALTH REVENUES—Federal and Other Non-Tax Revenues." The Governor vetoed this provision; under the state constitution, his veto can be overridden by a two-thirds vote of each house of the Legislature.

On May 1, 1997, the Legislature's Committee on Government Regulations voted to send the September, 1995 tribal-state compact between the Wampanoag Tribe of Gay Head and the Commonwealth to the floor of the House of Representatives with a recommendation that it not be approved. On May 5, 1997, the House accepted the committee's adverse report, thereby killing the legislation for the current legislative session.

Operating Fund Structure

Legislation approved by the Governor on May 12, 1997 incorporated the Governor's proposal to raise the statutory ceiling on the Stabilization Fund and to authorize the current balances in the Tax Reduction Fund (attributable to the fiscal 1996 surplus) to be used for personal income tax reductions for the 1997 tax year. See the February Information Statement under the headings "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Operating Fund Structure; *Stabilization Fund*" and "FINANCIAL RESULTS—Fiscal Years 1992 through 1996; *1996 Fiscal Year*." The legislation also amended the General Laws to provide that up to 40% of any fiscal year-end surplus may, prior to any transfer to the Stabilization Fund, be held in a separate account to be used for capital expenditures, if there is a negative balance in the state's capital funds. The Senate budget authorizes moneys in that account to be expended without further appropriation for capital projects for which state bonds have been authorized. On May 21, 1997 the Senate approved a fiscal 1997 appropriation bill, released by the Senate Ways and Means Committee as a companion bill to the fiscal 1998 budget, authorizing approximately \$293 million of fiscal 1998 spending to be charged to fiscal 1997, including \$129.9 million for the final debt service payment on account of the fiscal recovery bonds issued in 1990, thereby having the effect of reducing the amount of the fiscal 1997 surplus. Various capital grants, equipment purchases and other nonrecurring items account for \$138 million of the total in the Senate bill. On June 3, 1997 the House of Representatives approved an amended version of the Senate bill, providing for approximately \$185 million of previously authorized capital spending (currently authorized to be financed by the issuance of general obligation bonds) to be charged to the fiscal 1997 surplus and expended in fiscal 1998 and fiscal 1999. On July 2, 1997, the House of Representatives also approved legislation that would establish a Capital Investment Relief Trust Fund to which the State Treasurer would be directed to transfer up to \$150 million of surplus fiscal 1997 revenues to reimburse the General Fund for capital expenditures that would otherwise be financed by the issuance of debt. A legislative conference committee is expected to reconcile the various proposals related to application of the fiscal 1997 surplus.

The Government

On July 23, 1997 the President of the United States nominated the Governor to be the next United States Ambassador to the Republic of Mexico. The Governor has indicated his willingness to accept the nomination and has stated that he will resign as Governor upon his confirmation by the United States Senate. Under the state constitution, the Lieutenant Governor will serve as acting Governor until the office is filled at the 1998 general election.

On July 11, 1997, the Governor approved legislation abolishing Middlesex County government immediately and providing for the abolition of county government in Hampden and Worcester Counties on July 1, 1998 (or sooner, if such county defaults on a bond or note). See the February Information Statement under the heading "THE GOVERNMENT—Local Government." The legislation contains appropriations of approximately \$24.6 million, to be charged to fiscal 1997, to provide for payments to vendors of Middlesex County Hospital and for debt service on bonds and notes issued by Middlesex County that were overdue or about to be due on the effective date of the legislation. On July 17, 1997, the Commonwealth paid all outstanding Middlesex County debt obligations that were due or overdue. Under the legislation, all functions, duties and responsibilities of the affected counties are transferred to the Commonwealth. As of the date of abolition of an affected county's government, all valid liabilities and debts of such county which are in force immediately before such date become obligations of the Commonwealth, and all assets and revenues of such county become assets and revenues of the Commonwealth. The Secretary of Administration and Finance is directed to establish an amortization schedule to recover the Commonwealth's costs from the cities and towns within each such county over a period not to exceed 25 years. The Governor vetoed provisions in the legislation that would have placed responsibility for county retirees on cities and towns rather than the Commonwealth, and indicated that he would file legislation providing for state assumption of such pension costs. On July 15, 1997, the House of Representatives overrode the Governor's veto of such provisions. The Governor also vetoed provisions that would have created county charter commissions in certain counties, indicating that he still favors legislation setting a date certain for the abolition of all county government and a mechanism by which cities and towns that wish to do so may establish alternative regional entities. The legislation approved by the Governor establishes a task force on the valuation of county assets and liabilities that is charged with compiling an inventory and providing for the valuation of all property of all counties in the Commonwealth for the purposes of considering the abolition of county government and the transfer of its functions, assets and liabilities to the Commonwealth. The eleven-member task force, which would consist of eight members of the Legislature, the Secretary of Administration and Finance, the Inspector General and the State Auditor, would be required to file a report by February 1, 1998. On July 17, 1997, the Governor filed legislation that would abolish all county governments by July 1, 1999 and that would require the state employees' retirement system to absorb the pension costs associated with county retirees. On July 21, 1997, the legislation was referred to the Legislature's Committee on Counties.

Capital Spending

On March 20, 1997, the Governor approved legislation to establish a Metropolitan Highway System, in substantially the form in which he had filed it on January 6, 1997. See the February Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*." A provision in the legislation added by the Legislature mandates a new "asset assessment study" to determine, within one year, whether the Massachusetts Port Authority can afford to contribute as much as \$300 million toward the cost of the Central Artery/Ted Williams Tunnel project, rather than the \$200 million contribution proposed by the Governor and contemplated by the legislation. The study is to be conducted by the Executive Office for Administration and Finance, the State Auditor, the Division of Capital Planning and Operations and the Port Authority.

Additional state spending authorization for the Central Artery/Ted Williams Tunnel project and other transportation projects is contained in transportation bond legislation approved by the Governor on May 16, 1997. The legislation authorizes \$1.545 billion in spending on federally assisted projects (approximately \$1.040 billion for the Central Artery/Ted Williams Tunnel project and \$504.7 million for other projects), to be funded by \$345 million in state bonds and \$1.2 billion in federal grants. The legislation authorizes an additional \$1.159 billion in future spending for the Central Artery/Ted Williams Tunnel project, to be funded in part by \$358.8 million in state bonds. In anticipation of future federal grants, the Commonwealth is authorized to issue up to \$1 billion of grant anticipation notes, including up to \$100 million for capitalized interest, with up to \$900 million of state bonds authorized to pay such notes to the extent federal grants are unavailable to pay the notes, which must mature by June 30, 2007. No more than \$450 million of such notes may be issued until the Intermodal Surface Transportation Efficiency Act of 1991 has been reauthorized or successor legislation has been enacted by the United States Congress, and no more than \$450 million of such notes may be issued if federal funding in fiscal 1999 falls below \$550 million. No more than \$900 million of such notes may be issued as general obligations of the Commonwealth or be otherwise payable from general revenues of the Commonwealth. Finally, the legislation authorizes approximately \$1.066 billion in additional transportation-related capital expenditures, to be funded by state bonds. The legislation stipulates that the Massachusetts Turnpike Authority must pay the Commonwealth \$700 million by December 31, 1998 to help defray costs of the Central Artery/Ted Williams Tunnel project or any other component of the Metropolitan Highway System, such amount to be in addition to the \$100 million already paid. See the February Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*."

The transportation bond legislation approved by the Governor on May 16, 1997 also eliminated the ceiling on Commonwealth bond anticipation notes that may be issued as commercial paper. See the February Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES—General Obligation Debt; *Commonwealth General Obligation Notes*."

The pre-development working group studying a proposed trade and convention center in Boston released its final report on March 25, 1997. See the February Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*." The estimated overall cost for the project is \$695 million. The report recommends a combination of general obligation bonds (of the Commonwealth or the city of Boston) and dedicated tax revenue bonds enhanced by a pledge of existing state or city hotel taxes or the existing state sales tax on meals.

On May 14, 1997, the Governor filed authorizing legislation for a new convention center in Boston. The facility would contain 600,000 square feet of exhibition space and 235,000 square feet of associated meeting space, with 1,900 underground parking spaces. Sufficient land would be acquired currently to provide capacity to expand the facility by 50% in the future. The city of Boston would acquire the site and pay at least \$125 million of the acquisition, relocation, demolition and remediation cost. An expanded and reconstituted Massachusetts Convention Center Authority would design, develop and operate the facility, which is projected to cost approximately \$575 million. The Commonwealth would provide back-up financing capacity in case damage awards from eminent domain taking cases exceed the city's commitment (to be funded by a \$50 million general obligation bond authorization, though such bonds could be sold as special obligations). The state's share of the cost would be financed by up to \$575 million in special obligation revenue bonds supported by a portion of a 2.3% convention center financing fee to be imposed on hotel room occupancies in Boston and Cambridge (effectively increasing the hotel tax in those cities from 9.7% to 12%), subject to local referendums, and by dedication of certain hotel, meals, beverage and sales tax receipts in Boston and Cambridge. The Commonwealth would be required to maintain a debt service reserve fund with respect to its special obligation bonds and to replenish the fund from a portion of the existing hotel tax. The Governor's bill would also authorize \$42 million of Commonwealth bonds to finance a

national music center in Lenox (\$2.5 million), an industrial park in Fall River (\$3.5 million), the basketball hall of fame in Springfield (\$25 million) and renovation of the civic and convention center in Worcester (\$17 million).

On July 15, 1997, the House of Representatives approved a modified version of the Governor's convention center bill. Under the House bill, the city of Boston would pay the first \$157.8 million of the acquisition costs for the site, the Commonwealth would pay the next \$47.2 million, and the city and Commonwealth would share equally in all acquisition costs over \$205 million, up to an additional \$50 million. The Commonwealth would be authorized to issue \$674.7 million of special obligation bonds payable from a 2.75% convention centers excise imposed on hotel room occupancies in Boston, Cambridge, Springfield and Worcester, a \$1 surcharge on sightseeing tickets for tours within 15 miles of the convention centers in Boston, Springfield or Worcester, a \$2 surcharge on parking at the Boston convention center garage and a \$10 surcharge on car rentals in Boston and Cambridge, as well as the other revenues contained in the Governor's bill. Any necessary replenishment of the debt service reserve fund would be funded by an increase in the 2.75% convention centers excise. The House bill also contains general obligation bond authorizations for the basketball hall of fame in Springfield (\$25 million), a regional tourism facilities fund (\$25 million) and convention centers in Springfield and Worcester (\$48.5 million and \$19 million, respectively). On July 24, 1997, the Senate approved an amended version of the House bill, including a \$165 million general obligation bond authorization for the various additional economic development and cultural facility projects proposed by the Governor and the House, plus others. The Senate bill authorizes \$562.2 million of Commonwealth special obligation bonds to finance the new convention center in Boston, with the stipulation that the state's share of the project cost is not to exceed \$537.2 million, including up to \$47.2 million for excess land acquisition costs beyond those to be paid by the city of Boston, plus up to an additional \$25 million of state cost-sharing with the city if the acquisition costs exceed \$205 million. The Senate bill modifies to some extent the array of fees and other receipts supporting the special obligation bonds, most notably by raising the hotel taxes in Boston, Cambridge, Springfield and Worcester by 2.3% rather than 2.75%. Neither the House bill nor the Senate bill would require local referendums to raise the hotel taxes, as proposed by the Governor. The differences between the House and Senate bills are expected to be reconciled by a legislative conference committee.

On June 20, 1997, the Governor approved legislation authorizing \$120 million of Commonwealth general obligation bonds and \$80 million of Massachusetts Government Land Bank bonds supported by Commonwealth contract assistance for the development of the former Fort Devens army base. See the February Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*."

The conference committee report on the courthouse bond legislation was released on May 13, 1997, and the legislation was enacted by the Legislature on that date. The bill would authorize \$685.3 million of capital spending, to be funded by Commonwealth general obligation bonds, for courthouses owned and to be owned by the Commonwealth. On May 16, 1997 the Governor returned the bill to the Legislature with amendments that would eliminate the requirement that all bids associated with the courthouse improvements be awarded only to union contractors.

On May 27, 1997 the Committee on Housing and Urban Development approved legislation that would authorize \$375 million in Commonwealth general obligation bonds to finance the renovation of existing public housing units and other low-income housing creation and improvement projects. The legislation is now pending before the House Committee on Long-Term Debt and Capital Expenditures.

On June 9, 1997, the Governor filed legislation that would authorize \$73 million of Commonwealth general obligation bonds to finance capitalization grants to the Massachusetts Water Pollution Abatement Trust, of which \$31 million would provide matching funds for the state revolving fund program under the federal Clean Water Act and \$42 million would provide matching funds for a new state revolving fund program under the federal Safe Drinking Water Act. See the February Information Statement under the heading "OTHER COMMONWEALTH LIABILITIES—Water Pollution Abatement Trust." The legislation is being considered by the Legislature's Natural Resources Committee.

On June 11, 1997, the Governor filed legislation that would authorize \$10 million of Commonwealth general obligation bonds to finance design costs related to planned renovations to the Saltonstall Building, a 30-year-old state office building. Under the legislation, the renovations themselves would be financed by the issuance by the Massachusetts Industrial Finance Agency of up to \$100 million of lease revenue bonds; the Commonwealth would convey the building to the Agency and lease it back under a financing structure similar to that used for the Massachusetts Information Technology Center. See the February Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES—Indirect Obligations; *City of Chelsea Commonwealth Lease Revenue Bonds*." The legislation is being considered by the Legislature's Committee on State Administration.

Five-Year Capital Spending Plan and Plan of Finance

The following table sets forth current estimates of capital spending of the Commonwealth, including the Massachusetts Bay Transportation Authority ("MBTA"), as well as the projected sources of funding for such capital spending, including federal aid, for fiscal years 1998 through 2002. Total capital spending for fiscal years 1998 through 2002 to be financed from Commonwealth debt is forecast at approximately \$4.7 billion, which is significantly below legislatively authorized capital spending levels. In addition, the five-year plan also forecasts total MBTA capital expenditures of approximately \$1.403 billion for fiscal years 1998 through 2002, which spending is expected to be financed through the issuance of MBTA bonds. The plan, which has been developed by the Executive Office for Administration and Finance and reflects its views, assumes that the projected level of Commonwealth capital spending will leverage additional federal transportation aid of approximately \$4.538 billion for this period and also projects the issuance of \$1.5 billion in grant anticipation notes in anticipation of future federal aid to be received during fiscal years 2003 to 2007, inclusive. The latter assumption will require a change in law, because the current grant anticipation note authorization is limited to \$1 billion. Up to \$900 million of such notes are payable from Commonwealth bonds if federal grants are not available. See "Capital Spending." Federal aid is uncertain beyond September 30, 1997, when the Intermodal Surface Transportation Efficiency Act of 1991 expires. The anticipated levels of federal aid in the five-year plan are derived from the current "Central Artery/Tunnel Finance Plan" prepared by the Massachusetts Highway Department and proposals currently being considered by the United States Congress. The reauthorization of federal aid being considered by Congress is expected to run through the year 2002. Federal funds for the repayment of the grant anticipation notes contemplated by the five-year plan would have to be authorized by subsequently enacted successor legislation. The five-year plan also assumes that the projected level of payments from third-party agencies, such as the Massachusetts Turnpike Authority and the Massachusetts Port Authority, and from other sources will be \$1.4 billion. (One potential source is excess revenues. See "Operating Fund Structure.") Contractual agreements do not yet exist between either authority and the Commonwealth, and neither authority has yet agreed to pay more than what it is statutorily required to pay (\$700 million in the case of the Turnpike Authority and \$200 million in the case of the Port Authority).

The Executive Office for Administration and Finance regularly reviews its five-year capital spending plan to account for changes in the expected timing and amount of the Commonwealth's capital expenditures. The table assumes that all Commonwealth bonds related to a particular year's expenditures will be issued in the same year. In practice, Commonwealth capital expenditures usually occur prior to the issuance of the related bonds. Accordingly, it is customary for some Commonwealth bonds to be issued in a subsequent fiscal year to finance capital expenditures made in the prior fiscal year. See the February Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Overview of Capital Spending Process and Controls."

Summary of Five-Year Capital Spending Plan and Plan of Finance
(in millions)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Total</u>
Uses of Funds						
Information Technology	\$ 32	\$ 29	\$ 29	\$ 29	\$ 29	\$ 148
Infrastructure(1)	237	214	202	202	202	1,057
Environment(2)	93	119	105	105	105	527
Wastewater Treatment	35	35	35	35	35	175
Housing	67	67	71	71	71	347
Transportation						
Commonwealth Expenditures	458	488	413	413	413	2,185
Third Party-Supported/Other(3)	400	425	275	200	100	1,400
Grant Anticipation Notes(4)	175	450	600	275	0	1,500
MBTA	311	187	294	358	253	1,403
Federal Highway/MBTA Aid(5)	<u>1,170</u>	<u>1,034</u>	<u>777</u>	<u>840</u>	<u>717</u>	<u>4,538</u>
Transportation Subtotal	2,514	2,584	2,359	2,086	1,483	11,026
Public Safety	15	9	9	9	9	51
Other	63	39	36	36	36	210
Total	<u>\$3,056</u>	<u>\$3,096</u>	<u>\$2,846</u>	<u>\$2,573</u>	<u>\$1,970</u>	<u>\$13,541</u>
Sources of Funds						
Federal Aid(5)	\$1,170	\$1,034	\$777	\$840	717	\$4,538
Commonwealth Debt(6)	1,000	1,000	900	900	900	4,700
Third Party-Supported/Other(3)	400	425	275	200	100	1,400
Grant Anticipation Notes(4)	175	450	600	275	0	1,500
MBTA Bonds	<u>311</u>	<u>187</u>	<u>294</u>	<u>358</u>	<u>253</u>	<u>1,403</u>
Total	<u>\$3,056</u>	<u>\$3,096</u>	<u>\$2,846</u>	<u>\$2,573</u>	<u>\$1,970</u>	<u>\$13,541</u>

SOURCE: Executive Office for Administration and Finance.

- (1) Includes hospital consolidation, prison, courts and higher education construction and miscellaneous other projects.
- (2) Includes open space acquisition.
- (3) The Massachusetts Turnpike Authority and the Massachusetts Port Authority are obligated by statute to make payments to the Commonwealth of no less than \$700 million and \$200 million, respectively, for use in meeting transportation-related obligations. Total payments by these two authorities before completion of the Central Artery/Ted Williams Tunnel project may be greater than the statutorily mandated amounts, depending on a variety of factors, including the financial capacity of the respective authorities and the levels of federal funding for state highway construction. However, neither authority has yet agreed to pay more than it is statutorily required to pay. The terms of contractual agreements between the Commonwealth and the respective authorities are presently under discussion. No payments from third parties were received during fiscal 1997. Some payments to contractors for highway construction work completed in fiscal 1997 may be permanently financed by third-party payments received after the close of fiscal 1997, proceeds from Commonwealth debt issues, excess revenues (see "Operating Fund Structure") or a combination thereof. Estimates are derived from the "Central Artery/Tunnel Finance Plan" prepared annually by the Massachusetts Highway Department and interim internal revisions prepared by the Department and the Executive Office for Administration and Finance. The MBTA may also make contributions to transportation project funding related to collateral improvements to the MBTA system.
- (4) The five-year plan contemplates the issuance of grant anticipation notes to finance a portion of the cash requirements of the Central Artery/Ted Williams Tunnel project, consistent with the current "Central Artery/Tunnel Finance Plan" prepared by the Massachusetts Highway Department and the joint feasibility study released on December 5, 1996. See the February Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Overview of Capital Spending Process and Controls; Five-Year Capital Spending Plan." The planned source of repayment would be federal highway grants to be received during the fiscal years 2003 to 2007, inclusive, although there may be additional sources of repayment available. Such grants would have to be authorized by subsequent federal legislation to be enacted in or around 2002 upon the expiration of the successor legislation now being considered. Current legislation authorizing the Commonwealth to issue grant anticipation notes contains a \$1 billion limit on the issuance of such notes which would have to be amended by the Legislature to permit the issuances contemplated by the five-year plan.
- (5) Figures are estimates based on the current "Central Artery/Tunnel Finance Plan" and legislative proposals currently being considered by the United States Congress. Actual amounts are subject to the provisions of successor legislation to the Intermodal Surface Transportation Efficiency Act of 1991, which expires on September 30, 1997. Such successor legislation is expected to authorize aid for an additional five-year period.
- (6) Includes general obligation bonds and special obligation bonds.

Retirement Systems and Pension Benefits

The fiscal 1998 budget approved by the Governor on July 10, 1997 provides for an accelerated pension funding schedule designed to eliminate the Commonwealth's unfunded liability by 2018 rather than 2028. Fiscal 1998 appropriations amount to approximately \$1.046 billion, rather than the Governor's recommendation of approximately \$952.8 million, and the budget calls for a slightly more conservative investment return assumption (8.25% rather than 8.5%).

On June 6, 1997, the Governor approved legislation that mandates automatic increases in cost-of-living allowances (equal to the lesser of 3% or the previous year's percentage increase in the United States Consumer Price Index) for members of the state employees' and teachers' retirement systems, to be funded by the investment income of the systems. Local retirement systems that have established pension funding schedules may opt in to the requirement as well, with the costs and actuarial liabilities attributable to the cost-of-living allowances required to be reflected in such systems' funding schedules. See the February Information Statement under the heading "OTHER COMMONWEALTH LIABILITIES—Retirement Systems and Pension Benefits."

Update of Existing Litigation

In *Perini Corporation v. Commissioner of Revenue* (Supreme Judicial Court No. 6657), the Department of Revenue is continuing to analyze the final fiscal impact of the ruling; to date, it has paid approximately \$11 million in abatements in accordance with the judgment. See the February Information Statement under the heading "LITIGATION."

In *Spaulding Rehabilitation Hospital Corporation v. Massachusetts Highway Department, et al.* (Suffolk Superior Court. No. 95-4360C), the Spaulding Rehabilitation Hospital filed an action to enforce an agreement to acquire its property by eminent domain, in connection with the Central Artery/Ted Williams Tunnel project. If the hospital is successful, it could recover the fair market value of its property in addition to its relocation costs with respect to its personal property. It is estimated that the Commonwealth's potential liability is approximately \$50 million. The hospital has signed interrogatories indicating that it believes that the property is worth more than \$60 million. The case is currently being tried in Superior Court.

In *The McCourt Co., Inc. v. Commonwealth* (Suffolk Superior Court No. 94-2032), the Commonwealth faced an additional potential liability of approximately \$75 million to \$135 million connection with a taking by the Massachusetts Highway Department related to the relocation of Northern Avenue in South Boston. On May 30, 1997, the Commonwealth paid approximately \$58 million in full settlement of the pending claims.

COMMONWEALTH BOND AND NOTE LIABILITIES

The following table sets forth the Commonwealth bond and note liabilities outstanding as of July 1, 1997.

Commonwealth Bond and Note Liabilities July 1, 1997 (in thousands)

	<u>Long-Term(1)</u>	<u>Short-Term</u>
COMMONWEALTH DEBT		
General Obligation Debt	\$9,561,468 (2)	0
Dedicated Income Tax Debt	129,900 (2)	0
Special Obligation Debt	520,760	0
Subtotal Commonwealth Debt	<u>10,212,128</u>	<u>0</u>
COMMONWEALTH-SUPPORTED DEBT		
Massachusetts Bay Transportation Authority	3,043,815 (3)	\$325,000 (4)
Massachusetts Convention Center Authority	134,454	0
Massachusetts Government Land Bank	10,860	0
Boston Metropolitan District	41,799	0
Steamship Authority	36,769	0
Regional transit authorities	0	68,375
Subtotal Supported Debt	<u>3,267,697</u>	<u>393,375</u>
COMMONWEALTH-GUARANTEED DEBT		
Massachusetts Turnpike Authority	0	259,315
Higher education building authorities	237,012	0
Subtotal Guaranteed Debt	<u>237,012</u>	<u>259,315</u>
TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES	<u>\$13,716,837</u>	<u>\$652,690</u>

SOURCE: Office of the State Treasurer, Office of the Comptroller and respective authorities and agencies.

- (1) Long-term debt includes discount and costs of issuance. Does not include long-term capital lease obligations. See the February Information Statement under the headings "COMMONWEALTH BOND AND NOTE LIABILITIES—Indirect Obligations; *Plymouth County Certificates of Participation*" and "OTHER COMMONWEALTH LIABILITIES—Long-Term Capital Leases and Certificates of Participation."
- (2) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from January 1, 1997 through their maturity in the amount of \$326 million.
- (3) Includes bonds and refunding bonds, excluding such bonds that have been refunded. Does not include Certificates of Participation and other long-term lease obligations.
- (4) Includes \$160 million of notes due September 5, 1997 and \$165 million of notes due February 27, 1998. In addition, as of July 24, 1997, the MBTA has outstanding \$65.1 million of commercial paper issued as bond anticipation notes. See the February Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES—Commonwealth Supported Debt; *MBTA*."

OTHER COMMONWEALTH LIABILITIES

Unemployment Compensation Trust Fund

As of June 30, 1997 the private contributory sector of the Massachusetts Unemployment Trust Fund had a surplus of \$1.147 billion. The Division of Employment and Training's April, 1997, quarterly report indicated that the contributions provided by current law should result in a private contributory balance of \$1.349 billion in the Unemployment Compensation Trust Fund by December, 1997 and rebuild reserves in the system to \$2.097 billion by the end of 2001. See the February Information Statement under the heading "OTHER COMMONWEALTH LIABILITIES—Unemployment Compensation Trust Fund."

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Supplement or the February Information Statement or requests for additional financial information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Assistant Deputy Treasurer, Office of the Treasurer-Receiver General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900, or Catherine R. Frazer, Director of Debt Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Supplement or the February Information Statement should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/348-1720.

THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Joseph D. Malone
Joseph D. Malone
Treasurer and Receiver-General

By /s/ Charles D. Baker
Charles D. Baker
Secretary of Administration and Finance

July 24, 1997

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TABLE OF REFUNDED BONDS

The bonds of the Commonwealth to be refunded by the proceeds of the Series A Bonds, together with proceeds from other, variable rate bonds (the "Variable Rate Bonds") of the Commonwealth expected to be issued at or about the same time as the Series A Bonds, are described below.

	Maturity Date	Coupon	Amount	Call Date	Call Price
\$7,705,000 General Obligation Refunding Bonds, 1986 Series B					
	2/01/2000	6.20%	\$1,490,000	2/01/1998	101.5%
	2/01/2001	6.30%	<u>\$1,580,000</u>	2/01/1998	101.5%
			\$3,070,000		
\$150,000,000 Consolidated Loan of 1987, Series A:					
	3/01/2000	5.75%	\$7,680,000	3/01/1998	101.5%
\$200,000,000 Consolidated Loan of 1987, Series B:					
	7/01/1999	7.00%	\$10,660,000	1/01/1998	102.0%
\$200,000,000 Consolidated Loan of 1988, Series A:					
	3/01/2000	6.50%	\$11,025,000	3/01/1998	102.0%
\$250,000,000 Consolidated Loan of 1988, Series B:					
	9/01/2000	7.00%	\$13,300,000	9/01/1998	102.0%
\$380,000,000 Consolidated Loan of 1988, Series C:					
	12/01/2000	7.25%	\$18,995,000	12/01/1998	102.0%
\$431,315,000 Consolidated Loan of 1989, Series A:					
	2/01/2001	0.00%	\$14,530,692 ¹	2/01/1999	103.0%
\$200,000,000 Consolidated Loan of 1989, Series B:					
	4/01/2001	7.30%	\$11,250,000	4/01/1999	102.0%
\$365,000,000 Consolidated Loan of 1989, Series C:					
	6/01/2001	7.00%	\$20,500,000	6/01/1999	102.0%
\$230,000,000 Consolidated Loan of 1989, Series D:					
	10/01/2001	7.00%	\$12,500,000	10/01/1999	102.0%

¹ Initial Amount

	Maturity Date	Coupon	Amount	Call Date	Call Price
\$361,674,000 Consolidated Loan of 1990, Series A:					
	3/01/2002	7.20%	\$22,900,000	3/01/2000	102.0%
\$97,170,000 General Obligation Refunding Bonds of 1991, Series C:					
	8/01/2009	6.75%	\$14,160,000 ²	8/01/2001	102.0%
	8/01/2011	6.50%	\$ 8,785,000 ³	8/01/2001	102.0%
	8/01/2012	6.00%	<u>\$10,265,000</u> ⁴	8/01/2001	102.0%
			\$33,210,000		
\$365,000,000 Consolidated Loan of 1991, Series D:					
	7/01/2007	7.00%	\$22,310,000	7/01/2001	102.0%
	7/01/2012	6.00%	<u>\$25,000,000</u>	7/01/2001	100.0%
			\$47,310,000		
\$207,610,000 Consolidated Loan of 1992, Series A:					
	6/01/2008	6.50%	\$ 3,285,000	6/01/2002	101.0%
	6/01/2013	6.00%	<u>\$49,790,000</u>	6/01/2002	100.0%
			\$53,075,000		
\$200,000,000 Consolidated Loan of 1992, Series D:					
	5/01/2012	5.75%	\$66,685,000	5/01/2002	102.0%
\$250,000,000 Consolidated Loan of 1994, Series B:					
	8/01/2010	5.875%	\$15,955,000	8/01/2004	102.0%
	8/01/2011	6.00%	\$16,910,000	8/01/2004	102.0%
	8/01/2012	6.00%	\$17,935,000	8/01/2004	102.0%
	8/01/2013	6.00%	\$19,030,000	8/01/2004	102.0%
	8/01/2014	6.00%	<u>\$20,200,000</u>	8/01/2004	102.0%
			\$90,030,000		

² Unless otherwise redeemed earlier in accordance with its terms, the remaining amount (\$7,955,000) of term bonds with a stated maturity of August 1, 2009, \$3,620,000 is to be paid through mandatory sinking fund redemption on August 1, 2007, \$2,095,000 is to be paid through mandatory sinking fund redemption on August 1, 2008 and \$2,240,000 is to be paid at maturity.

³ Unless otherwise redeemed earlier in accordance with its terms, the remaining amount (\$4,935,000) of term bonds with a stated maturity of August 1, 2011, \$2,390,000 is to be paid through mandatory sinking fund redemption on August 1, 2010 and \$2,545,000 is to be paid at maturity.

⁴ Unless otherwise redeemed earlier in accordance with its terms, the remaining amount (\$5,770,000) of bonds with a stated maturity of August 1, 2012 is to be paid at maturity.

Maturity Date	Coupon	Amount	Call Date	Call Price
\$200,000,000 Consolidated Loan of 1994, Series C:				
11/01/2007	6.50%	\$10,810,000	11/01/2004	101.0%
11/01/2008	6.60%	\$11,520,000	11/01/2004	101.0%
11/01/2009	6.70%	<u>\$12,285,000</u>	11/01/2004	101.0%
		\$34,615,000		
\$150,000,000 Consolidated Loan of 1995, Series A:				
2/01/2010	5.75%	\$ 9,100,000	2/01/2005	101.0%
2/01/2011	5.75%	\$ 9,640,000	2/01/2005	101.0%
2/01/2012	5.75%	\$10,225,000	2/01/2005	101.0%
2/01/2013	5.75%	\$10,845,000	2/01/2005	101.0%
2/01/2015	5.75%	<u>\$23,735,000</u>	2/01/2005	101.0%
		\$63,545,000		
\$200,000,000 Consolidated Loan of 1995, Series C:				
8/01/2015	5.625%	\$15,690,000	8/01/2005	101.0%
\$250,000,000 Consolidated Loan of 1996, Series B:				
6/01/2014	5.75%	\$17,700,000	6/01/2006	101.0%
6/01/2015	5.75%	\$18,725,000	6/01/2006	101.0%
6/01/2016	5.75%	<u>\$19,820,000</u>	6/01/2006	101.0%
		\$56,245,000		
TOTAL		\$606,815,692		

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FORM OF BOND COUNSEL OPINION

Upon the delivery of the Bonds, Bond Counsel proposes to deliver an opinion in substantially the following form:

PALMER & DODGE LLP

One Beacon Street, Boston, MA 02108-3190

TELEPHONE: (617) 573-0100

FACSIMILE: (617) 227-4420

[Date of Delivery]

The Honorable Joseph D. Malone
Treasurer and Receiver-General
The Commonwealth of Massachusetts
State House - Room 227
Boston, Massachusetts 02133

(The Commonwealth of Massachusetts
General Obligation Refunding Bonds, 1997 Series A
and General Obligation Bonds, Consolidated Loan of 1997, Series C)

We have acted as Bond Counsel to The Commonwealth of Massachusetts in connection with the issuance by the Commonwealth of \$375,840,000 aggregate principal amount of General Obligation Refunding Bonds, 1997 Series A, and \$250,000,000 aggregate principal amount of General Obligation Bonds, Consolidated Loan of 1997, Series C, each dated August 1, 1997 (collectively, the "Bonds").

The Bonds mature and bear interest and are subject to redemption at such times, in such amounts, at such prices and upon such terms and conditions as are set forth in the Bonds. The Bonds are immobilized in the custody of The Depository Trust Company and a book entry system is being used to evidence ownership and transfer on the records of The Depository Trust Company and its participants.

We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion. On the basis of this examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid general obligations of The Commonwealth of Massachusetts and the full faith and credit of the Commonwealth are pledged for the payment of the principal of and interest on the Bonds. It should be noted, however, that Chapter 62F of the General Laws of The Commonwealth of Massachusetts establishes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit.

2. Interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the Bonds nor as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

The Honorable Joseph D. Malone
[Date of Delivery]
Page 2

3. The interest on the Bonds (including any original issue discount properly allocable thereto) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"); it should be noted, however, that interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). The opinions set forth in the preceding sentence are subject to the condition that the Commonwealth comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with these requirements. Failure to comply with certain of these requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding any other tax consequences arising with respect to the Bonds.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Yours faithfully,

Commonwealth of Massachusetts
 General Obligation Refunding Bonds
 1997 Series A

General Obligation Bonds
 Consolidated Loan of 1997, Series C

Continuing Disclosure Undertaking

[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a "NRMSIR") within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule") and to the state information depository for the Commonwealth, if any (the "SID"), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth's failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth's Information Statement dated February 13, 1997 (the "Information Statement"), as it appears in the Official Statement dated February 20, 1997 of the Massachusetts Bay Transportation Authority with respect to its 1997 Series A Notes, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
1. Summary presentation on statutory accounting and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year, plus estimates for current fiscal year	"FINANCIAL RESULTS - Selected Financial Data - Statutory Basis"
2. Summary presentation on GAAP and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year	"FINANCIAL RESULTS - Selected Financial Data - GAAP Basis"
3. Discussion of selected key results for budgeted operating funds for prior fiscal years	"FINANCIAL RESULTS" (see discussion of prior fiscal years)
4. Summary presentation of actual revenues in budgeted operating funds on five-year comparative basis, concluding with prior fiscal year, plus estimates for current fiscal year	"COMMONWEALTH REVENUES - Distribution of Revenues"

Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
5. So long as Commonwealth statutes impose limits on tax revenues, information as to compliance therewith in the prior fiscal year	"COMMONWEALTH REVENUES - Limitations on Tax Revenues"
6. Summary presentation of budgeted expenditures by selected, then-current major categories on five-year comparative basis and estimated expenditures for current fiscal year	"COMMONWEALTH PROGRAMS AND SERVICES"
7. So long as Commonwealth statutes impose a limit on appropriations for debt service, information as to compliance therewith for the prior fiscal year and an estimate for the current fiscal year	"COMMONWEALTH PROGRAMS AND SERVICES - Debt Service"
8. If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	"COMMONWEALTH PROGRAMS AND SERVICES - State Workforce"
9. Statement of Commonwealth bond and note liabilities as of the end of the prior fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Overview - Outstanding Bond and Note Liabilities"
10. Five-year comparative presentation of long term Commonwealth debt and selected Commonwealth-supported debt as of the end of the prior fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Overview - Long Term Bond Liabilities"
11. Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Debt Service Requirements on Commonwealth Bonds"
12. So long as Commonwealth statutes impose a limit on the amount of outstanding "direct" bonds, information as to compliance therewith as of the end of the prior fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Statutory Debt Limit on Direct Bonds"
13. Five-year summary presentation of authorized but unissued general obligation debt and actual capital project expenditures	"COMMONWEALTH BOND AND NOTE LIABILITIES - Authorized But Unissued Debt"
14. Annual fiscal year debt service contract assistance requirements for Commonwealth-supported debt, beginning with the current fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Debt Service Contract Assistance Requirements on Commonwealth-Supported Debt"
15. Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	"OTHER COMMONWEALTH LIABILITIES - Retirement Systems and Pension Benefits"
16. Summary presentation of operating lease commitments for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - Long Term Operating Leases"

Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
17. Summary presentation of long-term capital lease and certificate-of- participation commitments for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - Long Term Capital Leases and Certificates of Participation"
18. Summary presentation of school building assistance program commitments for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - School Building Assistance"

Any or all of the items listed above may be included by reference to other documents, including official statements pertaining to debt issued by the Commonwealth, which have been submitted to each NRMSIR. If the document incorporated by reference is a Final Official Statement within the meaning of the Rule, it will also be available from the Municipal Securities Rulemaking Board ("MSRB"). The Commonwealth's annual financial statements for each fiscal year shall consist of (i) combined financial statements prepared in accordance with a basis of accounting that demonstrates compliance with the Massachusetts General Laws and other applicable state finance laws, if any, in effect from time to time and (ii) general purpose financial statements prepared in accordance with generally accepted accounting principles in effect from time to time. Such financial statements shall be audited by a firm of certified public accountants appointed by the Commonwealth.

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby further undertakes for the benefit of the owners of the Bonds to provide in a timely manner to the MSRB and to the SID notice of any of the following events with respect to the Bonds (numbered in accordance with the provisions of the Rule), if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties^{1/};
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) modifications to the rights of security holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the securities^{2/} and
- (xi) rating changes.

^{1/}Not applicable to the Bonds, since there is no debt service reserve fund securing the Bonds.

^{2/}Not applicable to the Bonds, since there is no property securing repayment of the Bonds that could be released, substituted or sold.

Nothing herein shall preclude the Commonwealth from disseminating any information in addition to that required hereunder. If the Commonwealth disseminates any such additional information, nothing herein shall obligate the Commonwealth to update such information or include it in any future materials disseminated.

To the extent permitted by law, the foregoing provisions of this Bond related to the above-described undertakings to provide information shall be enforceable against the Commonwealth in accordance with the terms thereof by any owner of a Bond, including any beneficial owner acting as a third-party beneficiary (upon proof of its status as a beneficial owner reasonably satisfactory to the Treasurer and Receiver-General). To the extent permitted by law, any such owner shall have the right, for the equal benefit and protection of all owners of Bonds, by mandamus or other suit or proceeding at law or in equity, to enforce its rights against the Commonwealth and to compel the Commonwealth and any of its officers, agents or employees to perform and carry out their duties under the foregoing provisions as aforesaid, provided, however, that the sole remedy in connection with such undertakings shall be limited to an action to compel specific performance of the obligations of the Commonwealth in connection with such undertakings and shall not include any rights to monetary damages. The Commonwealth's obligations in respect of such undertakings shall terminate if no Bonds remain outstanding (without regard to an economic defeasance) or if the provisions of the Rule concerning continuing disclosure are no longer effective, whichever occurs first. The provisions of this Bond relating to such undertakings may be amended by the Treasurer and Receiver-General of the Commonwealth, without the consent of, or notice to, any owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the Commonwealth for the benefit of the owners of Bonds, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of state legislation establishing the SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the Commonwealth (such as Commonwealth disclosure counsel or Commonwealth bond counsel) or by the vote or consent of owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment.

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**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER:

Policy No.:

BONDS:

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest become Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 P.M. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payments by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent

for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly provided by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500017 (6/83)

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

**Municipal Bond
New Issue Insurance Policy**

Issuer:	Policy Number:
	Control Number: 0010001
Bonds:	Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Municipal Bond New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

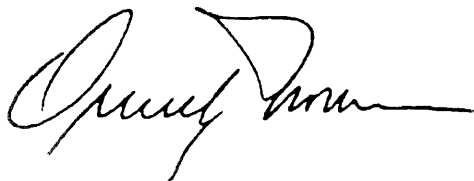
SPECIMEN


President

Effective Date:

Authorized Representative

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.



Authorized Officer

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Endorsement To Financial Guaranty Insurance Company Insurance Policy

Policy Number:

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

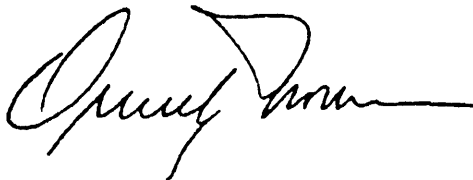
SPECIMEN


President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:



Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent



Municipal Bond Insurance Policy

AMBAC Indemnity Corporation
c/o CT Corporation Systems
44 East Mifflin St., Madison, Wisconsin 53703
Administrative Office
One State Street Plaza, New York, NY 10004
Telephone: (212) 668-0340

Issuer:

Policy Number

Bonds:

Premium:

AMBAC Indemnity Corporation (AMBAC) A Wisconsin Stock Insurance Company

in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to the United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

AMBAC will make such payments to the Insurance Trustee within one (1) business day following notification to AMBAC of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, AMBAC shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholders' rights to payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of AMBAC or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to AMBAC all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. AMBAC shall be subrogated to all the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

In the event the trustee or paying agent for the Bonds has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer of the Bonds has been deemed a preferential transfer and therefore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from AMBAC to the extent of such recovery if sufficient funds are not otherwise available.


As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. As used herein, "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of AMBAC, nor against any risk other than Nonpayment.

In witness whereof, AMBAC has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon AMBAC by virtue of the counter-signature of its duly authorized representative.


President




Secretary

Effective Date:

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Representative


Authorized Officer



Ambac Assurance Corporation
 c/o CT Corporation Systems
 44 East Mifflin Street, Madison, Wisconsin 53703
 Administrative Office:
 One State Street Plaza, New York, New York 10004
 Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

AMBAC Indemnity Corporation has changed its name to Ambac Assurance Corporation, effective 11:59 p.m., July 11, 1997. All other provisions, terms and conditions of the Policy remain in full force and effect. This endorsement should be attached to or kept with the Policy described above.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac Assurance Corporation has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac Assurance Corporation by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

President



Secretary

Authorized Representative



This information must be reviewed by the syndicate desk or principal underwriter before being released to any issuer.

1-2. NAME OF ISSUER AND DESCRIPTION OF ISSUE : THE COMMONWEALTH OF MASSACHUSETTS

3. STATE : A: MA,C: MA

4. DATED DATE : A: 08/01/1997,C: 08/01/1997

5. DATE OF FINAL MATURITY OF OFFERING : 08/01/2017C 6. DATE OF SALE : A: 07/24/1997,C: 07/24/1997

7. PAR VALUE OF OFFERING : \$ 625,840,000

8. PAR AMOUNT UNDERWRITTEN (if there is no underwriting syndicate): \$ —

9. AMENDED OR STICKERED OS? NO NUMBER OF SERIES IN OS : 2
(Enter Y or N) (Fill out one form for each series)

10. CHECK ALL THAT APPLY:

- a. At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.
- b. At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.
- c. This offering is exempt from SEC rule 15c2-12 under section (c)(1) of that rule. Section (c)(1) of SEC rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of \$100,000 or more and or sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, with a view toward distributing the securities.

11. MANAGING UNDERWRITER : Goldman, Sachs & Co.

16. CUSIP NUMBERS (and corresponding maturity dates)

08/01/1999A	575827JS0	08/01/2000A	575827JH4
08/01/2000A	575827JQ4	08/01/2001A	575827JJ0
08/01/2001A	575827JR2	08/01/2002A	575827JK7
08/01/2003A	575827JL5	08/01/2004A	575827JM3
08/01/2005A	575827JN1	08/01/2006A	575827JU5
08/01/2007A	575827JV3	08/01/2008A	575827JW1
08/01/2009A	575827JX9	08/01/2010A	575827JY7
08/01/2011A	575827JP6	08/01/2010C	575827JZ4
08/01/2011C	575827KA7	08/01/2012C	575827KB5
08/01/2013C	575827KC3	08/01/2014C	575827KD1
08/01/2015C	575827KE9	08/01/2017C	575827KG4

17. MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

Check here if the issue is ineligible for CUSIP number assignment.

State the reason why the issue is ineligible for CUSIP number assignment:

18. Submit two copies of the completed form along with the official statement to: Municipal Securities Rulemaking Board, 1640 King Street, Suite 300, Alexandria, VA 22314. Incomplete submissions will be returned for correction.

